

## Two studies by Project HOPE on paying for new technologies in Medicare

To assist MedPAC deliberations on how best to pay for new technologies in Medicare, MedPAC contracted with Project HOPE for two studies—one, a survey of large public and private sector purchasers, and the other, an expert panel. The survey focused on learning about the strategies large purchasers use to get the best possible prices for new technologies; participants were large public and private sector purchasers. The expert panel concentrated on options Medicare might consider for paying for new medical technologies; participants included not only purchasers (including CMS) but also representatives from manufacturers and academia.

The survey found that large purchasers use negotiation, competitive bidding, and other strategies that incorporate value into decisions about covering and paying for new technologies. The expert panel suggested that although other payers' approaches may not easily be adopted into Medicare's administered pricing systems, the program should pursue the concept of value-based purchasing. These findings are discussed in greater detail, together with a broader description of how Medicare pays for new technology in the inpatient and outpatient settings, in MedPAC's March 2003 Report to the Congress: Medicare Payment Policy. The report also recommends that Medicare use clinical criteria in considering payment for new outpatient drugs and biologicals.

### Key findings from the survey of large purchasers

Large purchasers use many strategies to purchase new technologies prudently. Pricing strategies differ depending a technology's relative clinical advantage over other treatments and the competitiveness of its market. Purchasers generally pay manufacturers' prices for breakthrough products that substantially improve treatment and have no competitors. Price discounts are more likely for technologies that have many competitors. Strategies purchasers use include:

- Staying informed. Respondents all reported making the investment to track new technologies and understand the medical evidence of their benefits to prepare for negotiating with manufacturers.
- Negotiating and contracting directly.
- Using coverage policies and other tools to limit exposure to high prices. Examples include tiered copayments, guidelines for use of technology, step therapy, and prior authorization.
- Soliciting competitive bids. This is possible when therapeutically equivalent products are available.
- Requiring providers to submit the invoice they paid to establish the purchase price.

- Conducting cost-effectiveness analysis. If the price is high relative to its effectiveness, the purchaser might restrict use of the product or negotiate with the manufacturer to reduce the price.
- Capping price based on manufacturer's return on equity.

### **Key findings from the expert panel**

Other purchasers' approaches may be difficult for Medicare adopt within the framework of its administered pricing systems; however, value-based purchasing could be a future direction for the program.

Medicare faces constraints that other payers do not and that may limit its ability to use some of the purchasers' strategies. These include: the size and national scope of the program, its role as an insurer (as opposed to a delivery system), public disclosure requirements, and limited administrative resources. Further, because Medicare is an entitlement program, beneficiaries and the public have expectations about access and choice, making decisions about limiting access to specific items controversial. Medicare does not have statutory authority to select among products or providers, which is what allows other purchasers to negotiate over price.

Although the specific techniques other payers use seem to have limited application in the current Medicare program, together they embody the concept of value-based purchasing, which most participants agreed could be useful to the program. Value-based purchasing involves making judgements about the benefit of a new technology compared to other available therapies and considering the value of the additional costs associated with use of the new technology.

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